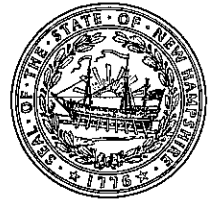




The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES



Thomas S. Burack, Commissioner

March 12, 2009

The Honorable Susan W. Almy, Chairman
House Ways and Means Committee
Rooms 202, Legislative Office Building
Concord, NH 03301

Subject: HB 2, Paragraph 68 (Amendment Number 0564h) relative to administrative costs of the state water pollution control and drinking water revolving loan funds.

Dear Chairman Almy:

Thank you for the opportunity to comment on Amendment Number 0564h relative to administrative costs of the state water pollution control and drinking water revolving loan funds. The proposed Amendment would increase the administrative charge against loan repayments, for low interest loans taken out from the Clean Water State Revolving Loan Fund (CWSRF) and Drinking Water State Revolving Loan Fund (DWSRF) programs, from 1% to 2%, for most loans, to support the costs of administering these programs and providing environmental program technical support to New Hampshire communities. This Amendment will better ensure the long term sustainability of the CWSRF and the DWSRF, and, as significantly, the Federal Performance Partnership Grant (PPG) programs at the Department of Environmental Services (DES). It is important to note that the proposed fee change is specifically structured to ensure no net increase in costs to municipalities or other loan recipients.

The CWSRF and DWSRF provide low interest loans to municipalities (under both funds) and other public water supplies (under the DWSRF) to support very important environmental and drinking water supply infrastructure projects. These funds are provided at interest rates that are well below market rates for loan terms of between 5 years (currently at 1.315%) and 20 years (currently at 4.208%). These loans result in substantial savings to borrowers of these funds, and thus to households served by water and wastewater facilities across the state. Interest rates are set annually based on a discount from a national interest rate index. All of these funds are originally derived from federal grants matched with state capital budget monies that are lent to communities. When due, loan repayments are deposited into a dedicated State Revolving Fund (SRF) repayment account from which DES again lends out the monies to communities, hence the name "state revolving fund." A flow chart depicting the cash flow through the CWSRF is attached to further your understanding of these programs.

DES is allowed under Federal requirements to take an annual administrative fee on each loan repayment to provide resources for wastewater and water program administration and technical support. This is essentially part of the "interest" on the loan. Pursuant to RSA 486:14 as enacted in 1996 (see Chapter 224 of 1996 Session Law) when the DWSRF program was first authorized, these fees have been set at 1% of the

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outstanding loan principal charged on an annual basis for both programs. Between 1989, when the CWSRF was authorized, and 1996, we believe that only interest and no fee was collected as part of CWSRF loan repayment. Through Amendment Number 0564h, DES proposes to increase the administrative fees to 2% in order to address actual and projected funding shortfalls that exist collectively in the CWSRF, DWSRF and Federal PPG. These shortfalls have developed over time as a result of increasing personnel costs, funding declines in real terms especially in the Federal PPG grant, and transfers of positions in past years from the state general fund and Federal PPG into the SRF accounts to meet budget reduction requirements without reducing services to communities. There is now an immediate need to shore up the total funds available on an annual basis in these three accounts to ensure long term sustainability because these funds are now collectively too stressed to support important environmental programs.

To provide greater understanding of how SRF fee revenues are derived and why a shortfall exists at this time, DES has developed a series of figures that illustrate the history of the CWSRF for the period from SFY 1999 to SFY 2008:

- Figure 1 provides the total number of CWSRF loans issued and the sources of funds for these loans by year. Over this period, DES has issued between 9 and 15 CWSRF loans per year with total loan amounts that were just under \$5 million in 1999 and have ranged up to a high of over \$57 million in 2008.
- Figure 2 shows the number and amount of loan repayments per year. These have climbed from \$6.3 million in 1999 to \$26 million in 2008, with a high of just over \$30 million in 2006.
- Figures 3 and 4 provide summaries of the average loan amounts and numbers of loans by loan term for 5, 10, 15 and 20 years. Note that over 76% of the loans are for 20 years, the maximum loan term allowed by the federal Clean Water Act.
- Figure 5 shows the annual fee revenues and number of loan repayments. Fees from annual loan repayments have ranged between \$570,120 and \$1,615,124.
- Figure 6 shows the CWSRF Administration Account history back to 1997, including annual revenues, expenses and fee account balances for this period. The fee account balance peaked in 2005 at just over \$2.1 million and has since steadily declined as expenses have exceeded revenues. In July 2009, the CWSRF fee account is projected to have no balance remaining, so it is at a critical level. The reason for this decline is a combination of increased staff costs (on a per staff basis) and staff transfers into the account over several years from the PPG account or the general fund. This is evident from the progressively higher costs depicted in Figure 6.
- Figure 7 projects the annual revenues, expenses and fee account balance for 2009 to 2015, assuming the proposed 2% fee and a transfer of \$500,000 in expenses from the Federal PPG account. Based on these projections, the CWSRF Fee Account can absorb these additional costs and maintain steady growth in the account.

If requested by your Committee, DES can provide similar graphs for the DWSRF and PPG. The PPG account has virtually an identical problem to the CWSRF account, with a projected balance of "carryover funds" projected to be zero by this summer. By

shoring up both the DWSRF and CWSRF accounts, we will be able to immediately transfer expenses for four eligible positions into these accounts to take the pressure off of the PPG accounts. The DWSRF and the related federal drinking water program accounts do not have an immediate balance problem. In fact, the DWSRF administrative account currently has a balance of just under \$3 million. However, this fund is projected to draw down to zero in 3 years, around 2012, unless the revenue stream is increased. Essentially, the drawdown of this fund to zero is projected to lag the CWSRF fund by 3 years under the current revenue structure. Again, if requested, DES could provide a complete, detailed analysis of the integrated funding picture for these federal accounts at your request.

Finally, as noted briefly above, Amendment 0564h is specifically structured to ensure that there is no increase in fees to municipalities or other loan recipients who repay these loans. Rather, there will be an equivalent reduction in the interest income credited to the CWSRF and DWSRF repayment accounts. In our judgment, this minor negative impact to the revenue stream to the repayment accounts (which currently have balances of just over \$62 million in the CWSRF and \$7 million in the DWSRF) is more than offset by our increased ability to support federal water programs staff for the foreseeable future. Also, please note that DES has confirmed with the Environmental Protection Agency staff in Boston that the approach set forth in Amendment 0564h is acceptable to them.

Thank you again for this opportunity to comment on Amendment 0564h. Please do not hesitate to call either me at 271-2958, Harry Stewart at 271-0677, or Sue Carlson at 271-1881 if you have any questions or need additional information.

Very truly yours,



Thomas S. Burack
Commissioner

Attachments

NH CLEAN WATER STATE REVOLVING LOAN FUND DEPICTION OF CASH FLOW

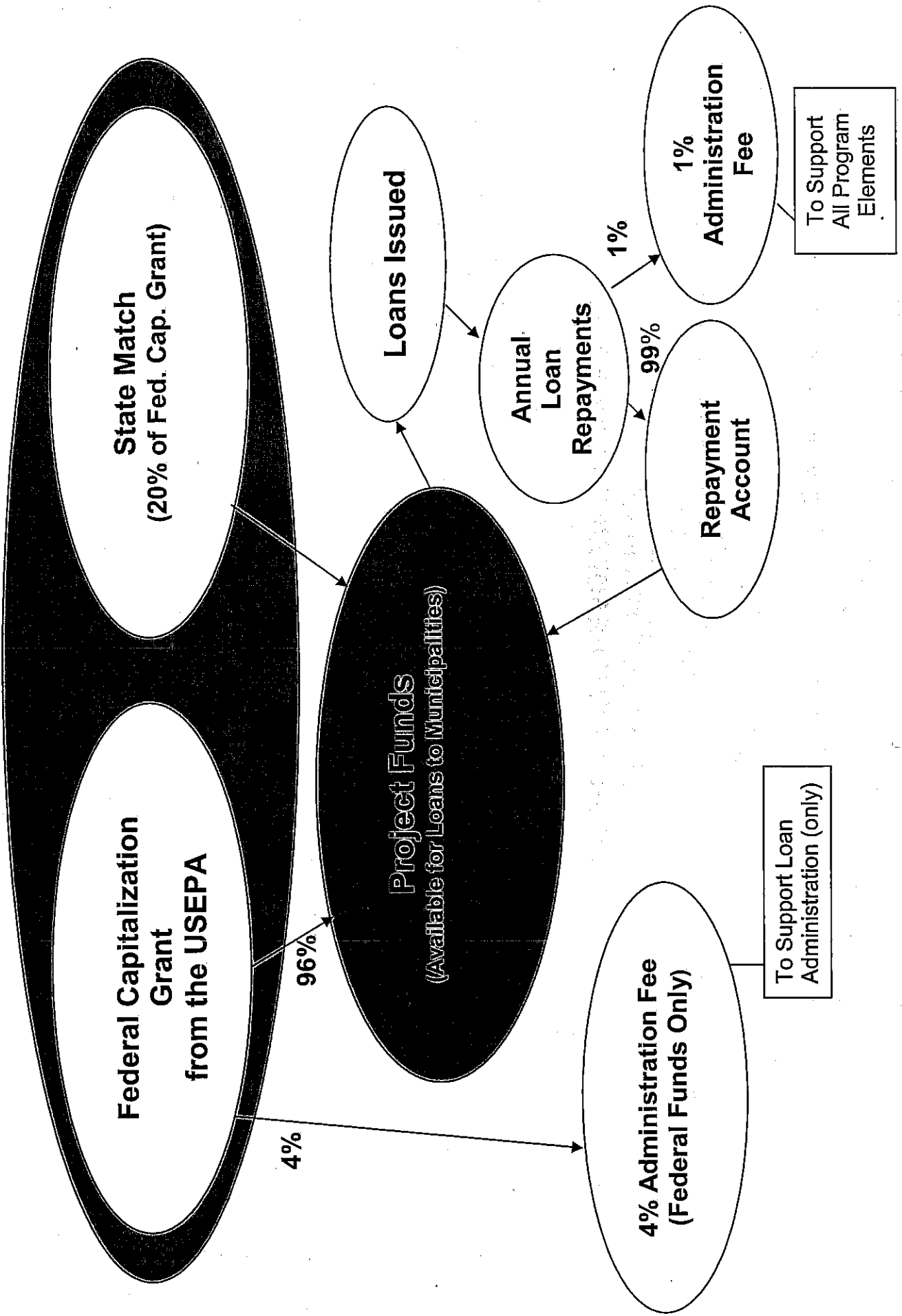


Figure 1
Clean Water SRF History: Annual Loans Issued from Federal Grants, State Match
(from Capital Budget) and Repayment Account

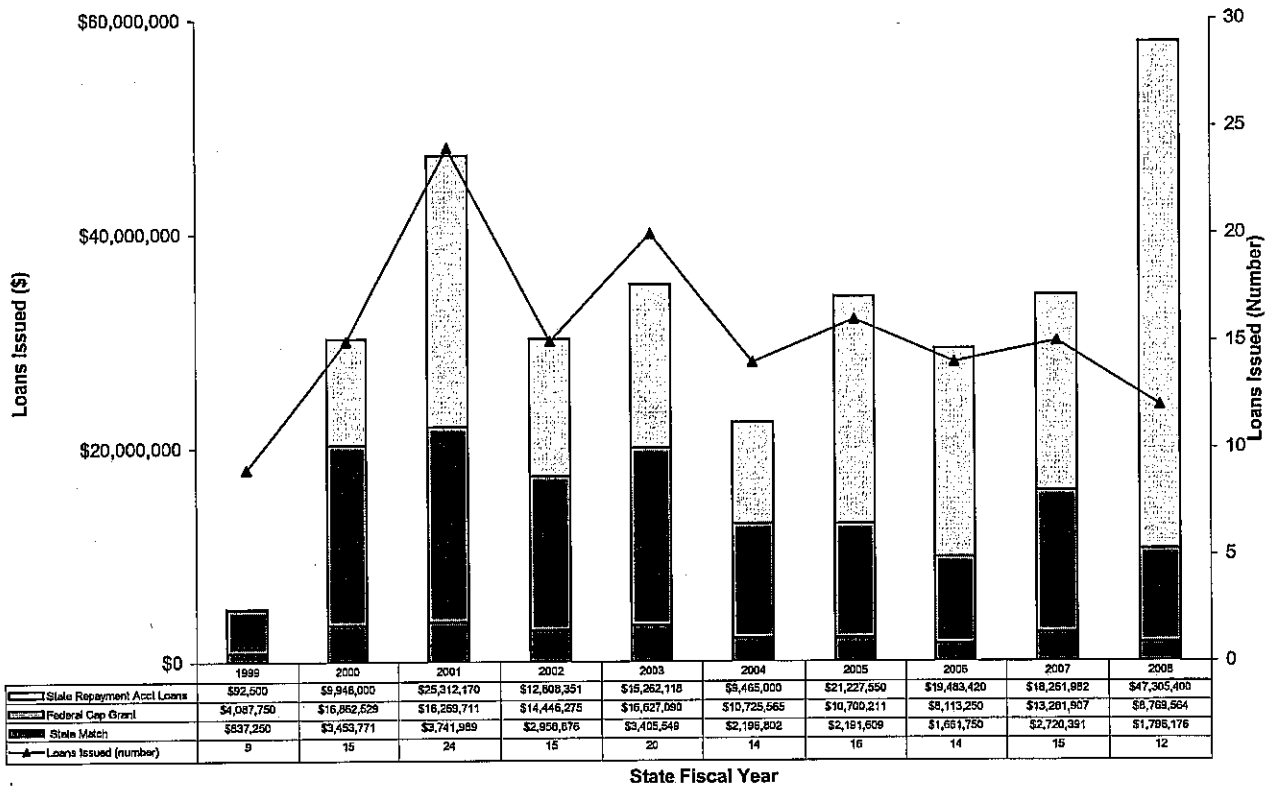


Figure 2
CW SRF Repayment Account History: Annual Loan Repayments Received

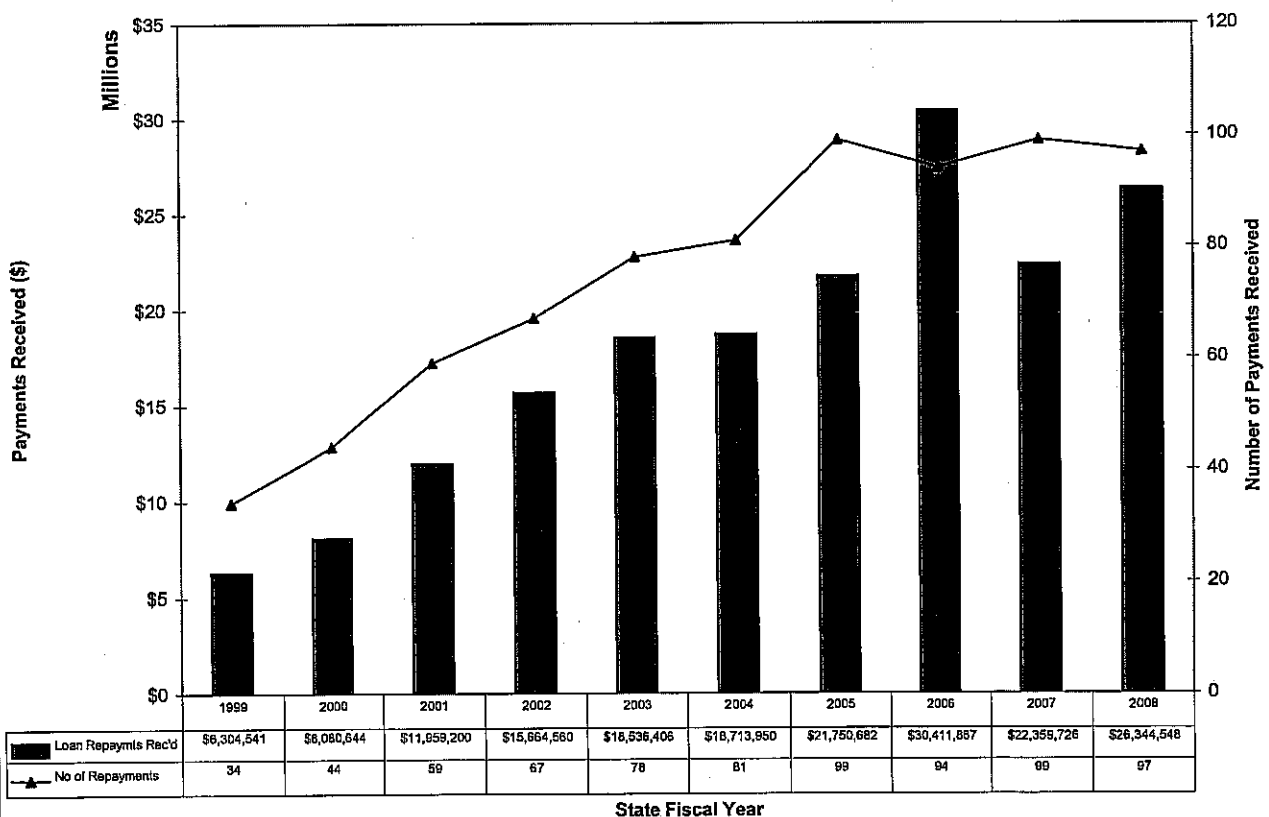


Figure 3
Clean Water SRF Average Loan Amount by Loan Term
State Fiscal Years 2003-2008
 (Average Total Loan Amount = \$34,800,000/year)

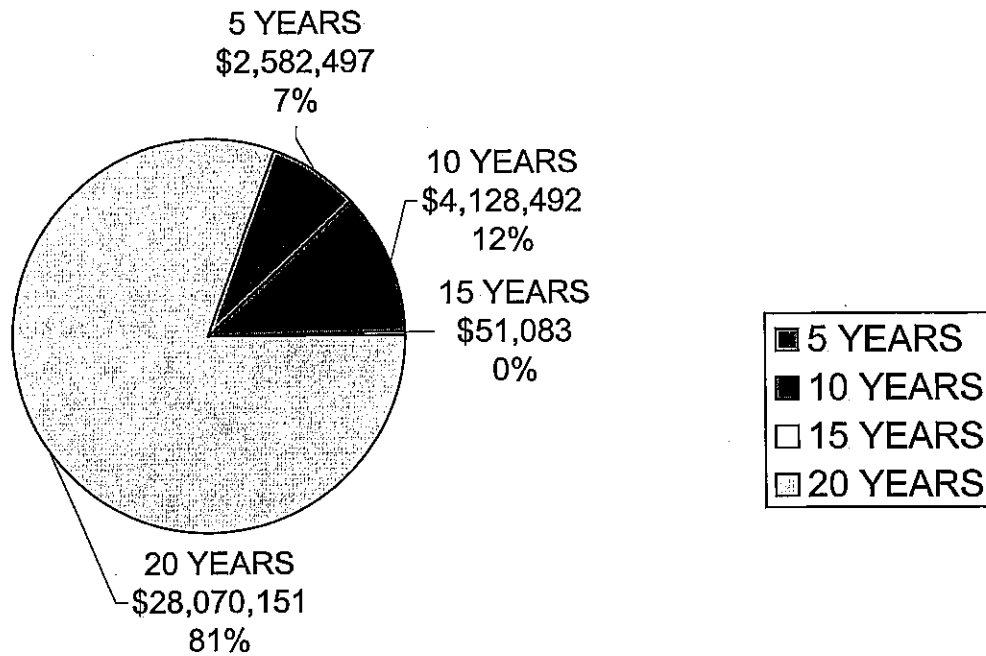


Figure 4
Clean Water SRF Average Number of Loans by Loan Term
State Fiscal Years 2003-2008
 (Average Total Number of Loans = 14.7/year)

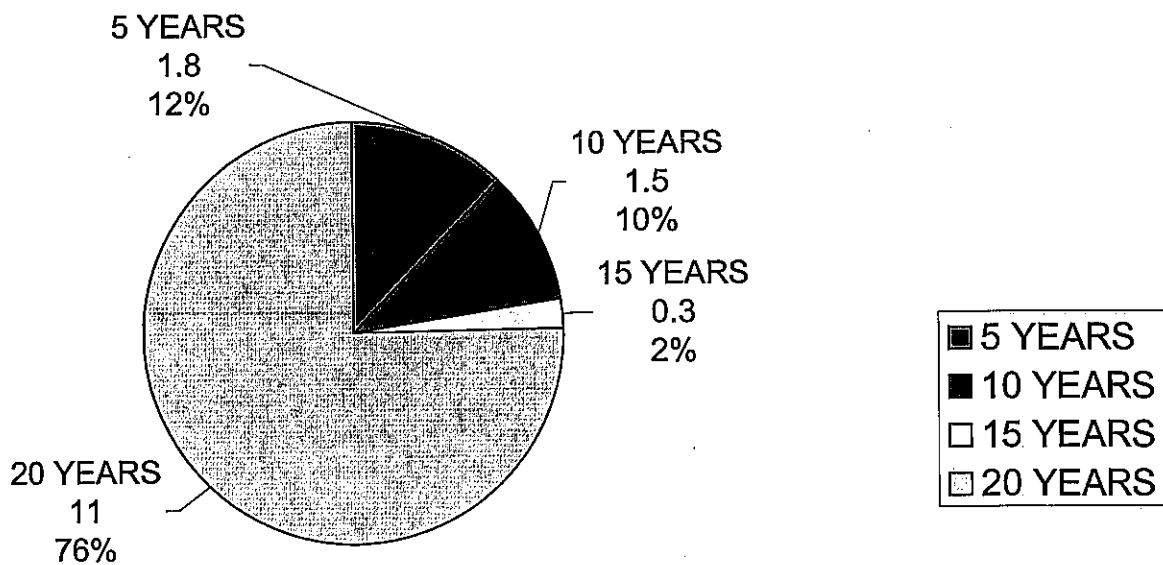


Figure 5
Clean Water SRF Repayment Account History: Annual Fee Revenues
(1% of Principal Repayments)

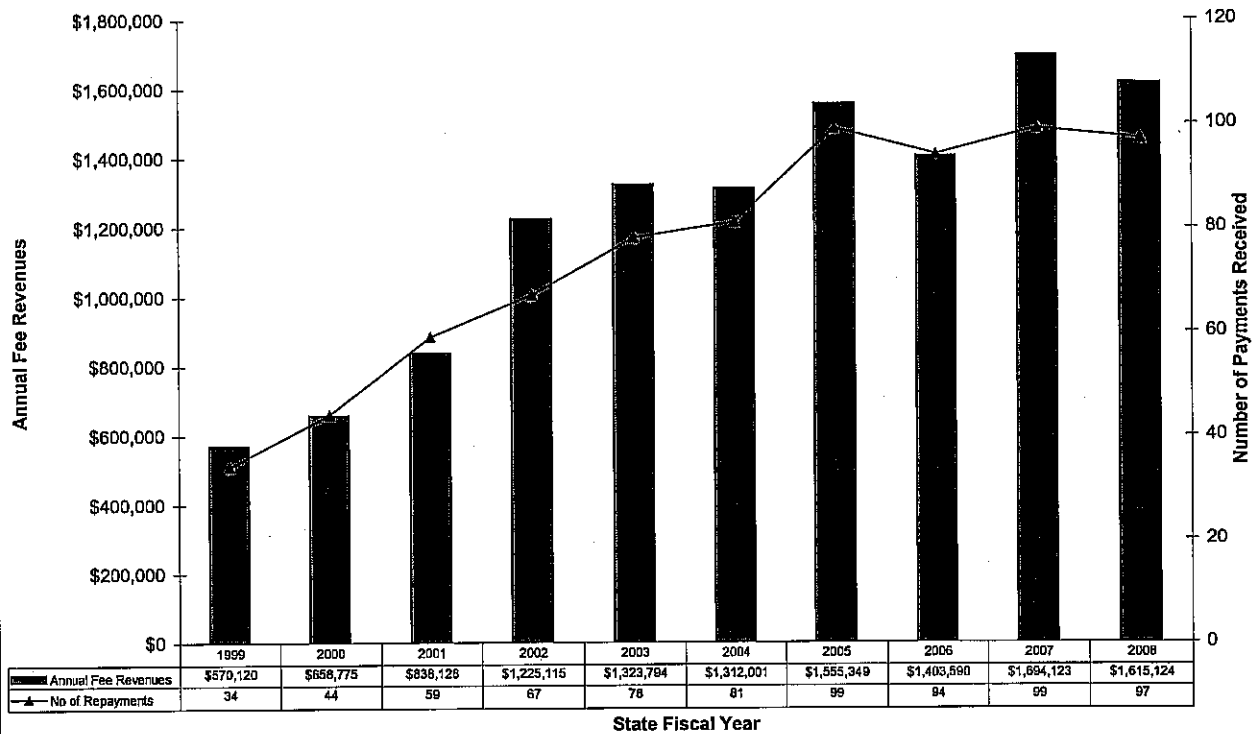


Figure 6
Clean Water SRF Administration Account
History (State FY1997 to 2008)

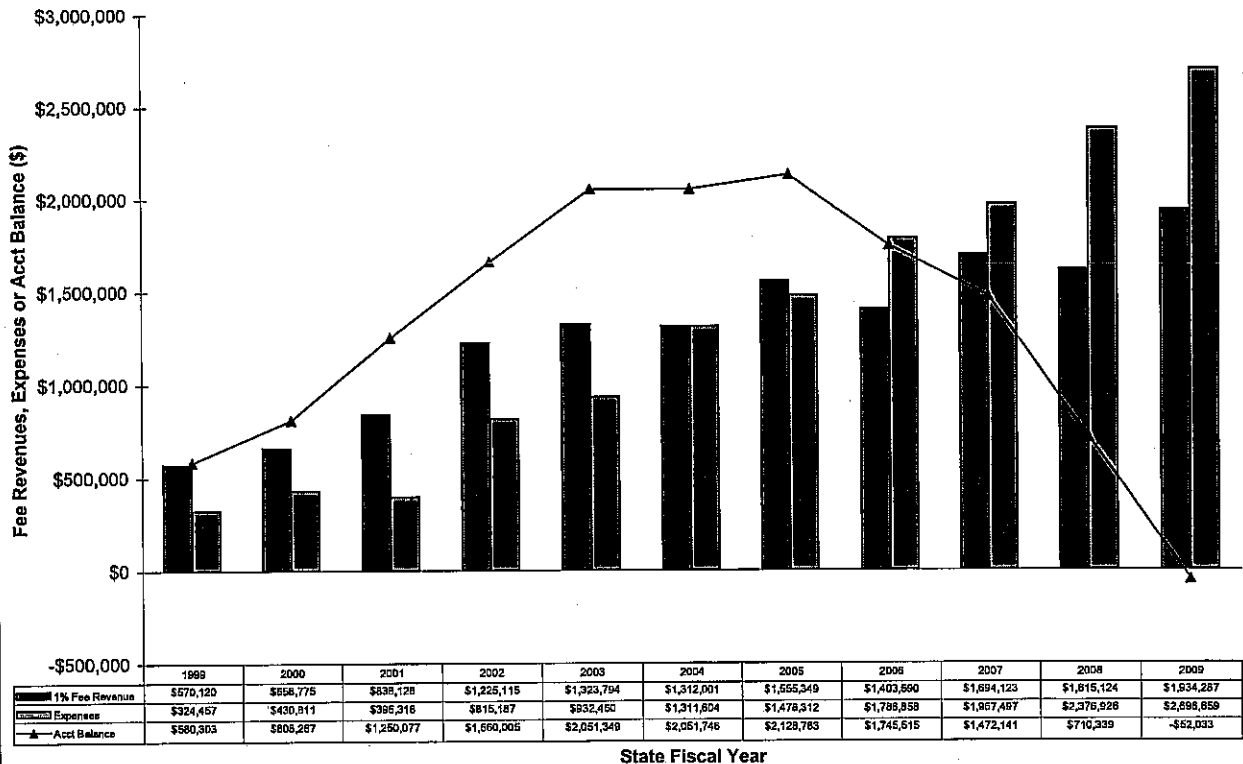
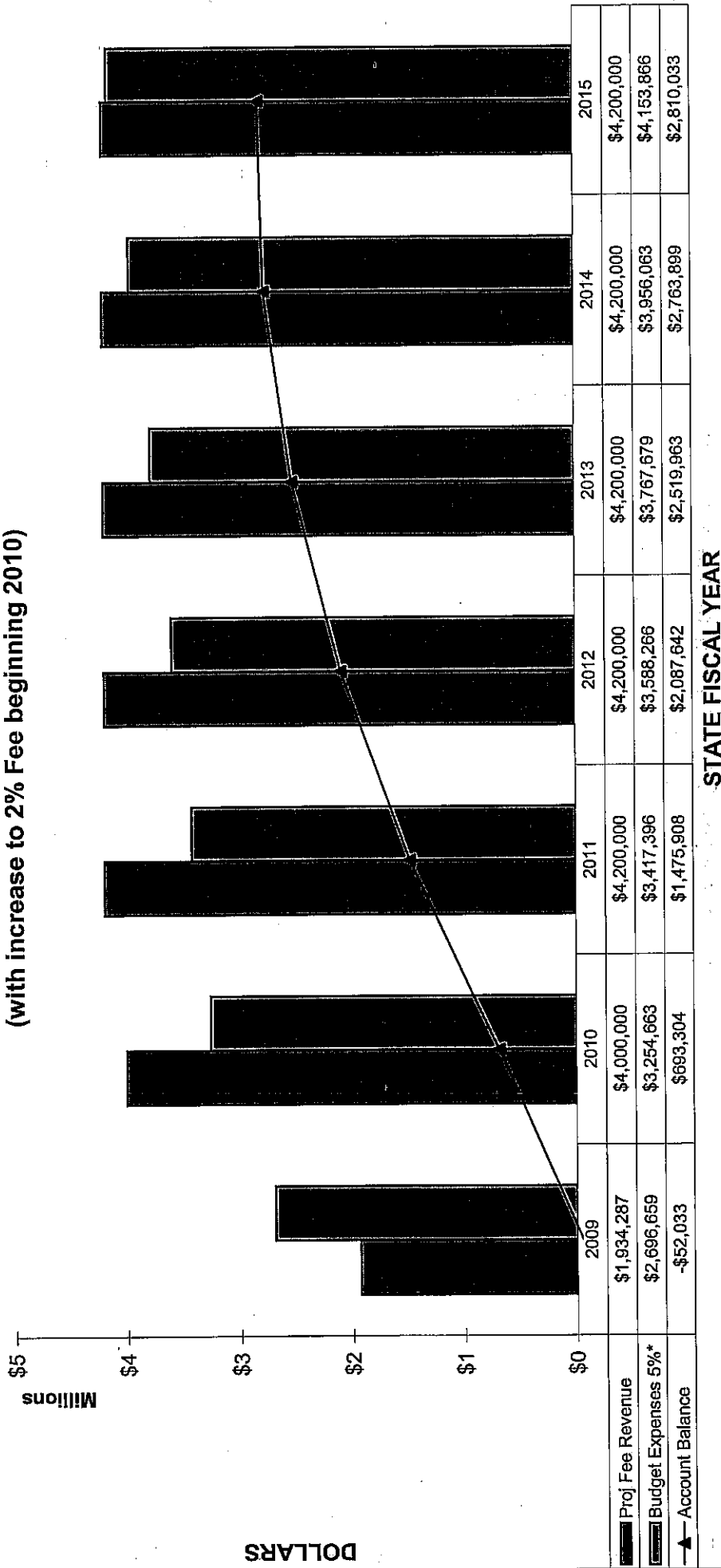


Figure 7
Clean Water State Revolving Fund (CWSRF) Fee Account:
Projected Income, Expenses and Account Balance, FY 2009-2015
(with increase to 2% Fee beginning 2010)



*Note: From 2011 to 2015 expenses assume 5%/year increase from previous year